

# ***MUNICIPAL REFORM.***

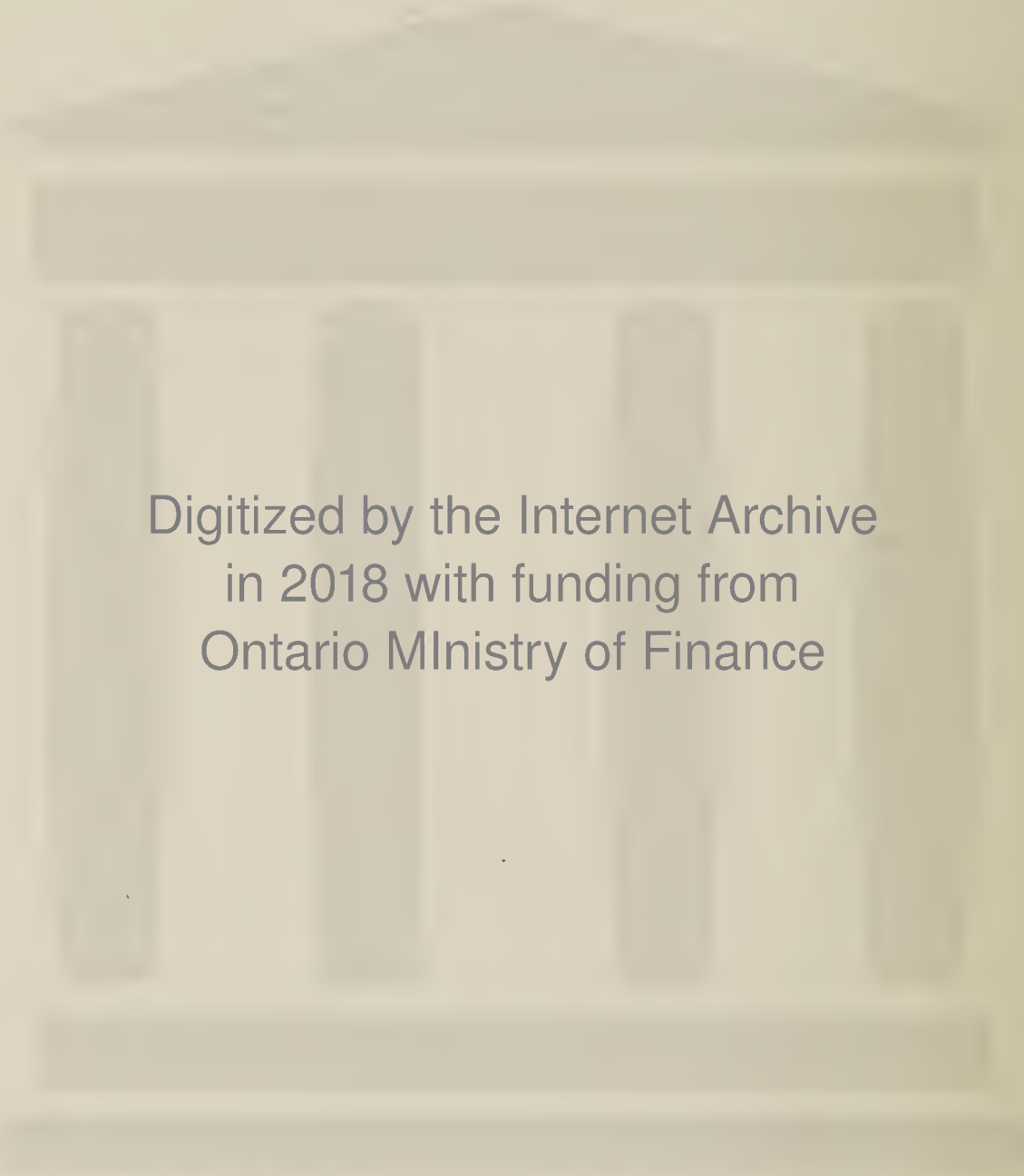
## ***A PROPOSAL***

### ***FOR THE FUTURE***



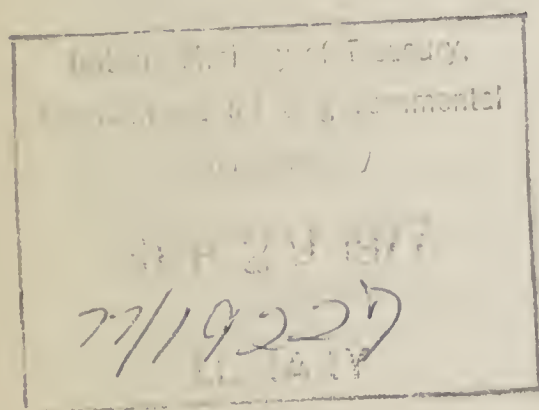
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***a report of***  
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# **MUNICIPAL REFORM: A PROPOSAL FOR THE FUTURE**



**a report of  
the Ontario Economic Council**

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*A*t least part of the relative ineffectiveness of the efforts of urban government to respond to urban problems derives from the fragmented and obsolescent structure of urban government itself. The (federal) government should constantly encourage and provide incentives for the reorganization of local government in response to the reality of metropolitan conditions. The objective of (the federal) government should be that local government be stronger and more effective, more visible, accessible and meaningful to local inhabitants. To this end the (federal) government should discourage the creation of paragovernments designed to deal with special problems by evading or avoiding the jurisdiction of established local authorities, and should encourage effective decentralization.

A primary object of (federal) urban policy must be to restore the fiscal vitality of urban government, with the particular object of ensuring that local governments normally have enough resources on hand or available to make local initiative in public affairs a reality.

DANIEL P. MOYNIHAN

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## FOREWORD

Government — local, regional, provincial and federal — seems to play an increasingly contradictory role in the lives of many Canadians.

They see it on the one hand as an all powerful authority, a great problem-solver and an all-wise protector of the individual.

On the other hand “government” is criticized for its alleged failure to respond to individual problems, its alleged unwillingness to encourage an adequate measure of citizen participation.

In other words it would appear that many of the citizens who elect governments fail to understand their structure and their process. They fail equally to recognize that democratic government is a creature of the people, that it need not be remote in any sense of the word and that its authority is simply a delegated responsibility.

Moreover they tend to overlook the fact that today’s service relationship between the public and private sectors is often such that they complement rather than compete.

But if one is to believe our communications media, much current social unrest seems to have its source in the conflict between what is held by our elected and appointed “governors” to be in the general public interest and the innate recognition by the individual member of the public that he is just that, an individual, and that no statistical average can accurately represent his desires.

In the private sector, seeking to market its goods and services, the customer still has an influence on what is sold, to whom and on what terms.

In contrast, as the public sector — “government” — has moved to control a larger proportion of our discretionary dollars, the sphere of decision as to what services an individual wants and on what terms has shrunk. Public programs tend to be “global” in their application and the reputed efficiency of centralized policy determination and administration has often taken precedence over other considerations.

This is the key question, of course, which faces every government — its political leaders and its civil servants — as they contemplate new legislation. To what extent should individual freedom and flexibility be sacrificed on the altar of the common good?

There is no easy answer. Just as there is no easy consensus in respect of the goals — social, political, economic, cultural, and ethical — which collectively provide the criteria for defining “common good”.

Yet without more extensive citizen participation in that goal-setting process, we may soon find ourselves rudderless in the legislative sea.

We must know the kind of society in which we want to live if we hope to attain an adequate measure of self-fulfilment; if we want to feel that we are each needed in the building of that society and that there is a very real opportunity to make a contribution commensurate with our ability.

\*   \*   \*   \*   \*

Early in 1969 The Ontario Economic Council published a report entitled “Government Reform in Ontario”. In that document we stressed the need to reform the structure of local government to meet the social, economic and political realities of Ontario.

We supported the provincial government’s announced intention to introduce a system of regional government in Ontario. We went further, however, to suggest that the province’s concept of regional government, as we interpreted it, did not envisage a needed complementary reform in administration.

This report is, in a sense, a follow-up to our earlier publication. It has been prepared by Mr. D. R. Richmond, Senior Staff Economist of the Ontario Economic Council. The Council has decided to publish it, not because its conclusions represent the unanimous views of its members but because it may contribute to the understanding of a major public issue in Ontario.

It should be stressed that the ideas put forward in this publication were, in part, inspired by statements made last Spring at the provincial-municipal conference convened by the Ontario government.

They are, moreover, admittedly theoretical concepts rather than proven proposals.

It is fully recognized that not only is their underlying philosophy subject to challenge but that the many cost analyses required for their evaluation have yet to be undertaken by the various levels of government concerned.

To some, indeed, these concepts may well be termed a revolution rather than a reform and, as such, will be rejected out of hand.

To others, who seek for our larger urban centres the status of a city state, they may appear a substantial shortfall.

Certainly to the political activists, who see confrontation as the prime route to power, they will be unacceptable.

But they do offer, through democratic compromise, one possible means of reconciling individual and community participation, regional economies, and the acknowledged requirement for a reform not only of our tax policies but of the need/service relationship for which those taxes are levied.

WILLIAM H. CRANSTON  
CHAIRMAN

JANUARY, 1971

## **CHAPTER I**

### **THE NATURE AND PURPOSE OF LOCAL GOVERNMENT**

Discussion at the Ontario Provincial-Municipal Conference in April, 1970, pointed out the need for clarification of the nature and purpose of local government.

A municipality is defined by The Municipal Act as “a locality the inhabitants of which are incorporated”. From the legal point of view, a municipality is an incorporated multi-purpose body empowered to legislate through by-laws for specific purposes.

Other agencies, known as special purpose authorities, exercise prescribed powers as incorporated bodies.

All these subprovincial bodies are usually lumped together under the general heading of local government.

#### **Differentiating Municipalities from Special Purpose Authorities**

Three features differentiate the municipality from the other institutions of local government: one, the power to levy taxes; two, the electoral basis of the corporation; and three, the relatively broad range of functions performed.

County and district school boards have the power to levy taxes and are directly elected. They are, however, limited in function.

In the main, the special purpose authorities tend to be isolated from the electorate, limited in function and without power to levy and collect taxes.

Degrees of discretion exercised by agencies of local government vary. Municipalities are free to establish legislative and spending priorities within the framework of the enabling legislation and financial controls established by provincial authorities. Special purpose authorities are more stringently controlled by provincial legislation and regulations.

If one set up two opposed positions — the provincial administration of all government services at one extreme and local autonomy at the other — each of the institutions of local government could be located between these poles, like beads on a string.

This mix of institutions, and their quite distinct relationships with the province, produce much of the existing confusion over the role and nature of local government in Ontario.

When considering any reform of government structure, this array of institutional relationships must be kept in mind. To the province the essential problem is administrative. How does one ensure that a common standard of service is made available to the people of Ontario? To the municipality, the special requirements of local areas take precedence over the need for commonality of service standards.

Government reform should presumably seek to establish a balance between these two objectives. But such a balance cannot be found without a better understanding of the nature and purpose of local government in our society.

### **The Importance of Geography**

Granting the subordinate legal position of the local agencies, the political process in Ontario supports the maintenance of local institutions.

Our system of government has a geographical bias. We elect members to our provincial and federal legislatures as representatives of defined geographic areas.

Though geographical representation is only one form of representation, it has emerged as the predominant basis for electoral purposes in the English-speaking world and in political systems using the British model.

Geographic representation is, however, an accident of history. The original basis of representation in the British system was not related to geography but to class. The House of Lords represented the nobility and the church, and the House of Commons represented the landed gentry.

The reforms in the 19th century broadened the electoral base of the British House of Commons by extending the franchise to more and more people on a geographic basis.

Canada inherited the geographical bias of the British model. Common interests of class have been minimized. But by using geography as the basis for political representation, we have reinforced differences between regions.

Geographical representation is not of necessity bad or good. It exists. Geography is an essential fact of our political life.

Critics of the political system in Canada who search in vain for the polarization of politics along class or ideological lines would do well to look at the influence of geographical representation and its impact on the political process.

Our electoral system emphasizes local problems and local needs. How often has it been said that our legislators spend so much time discussing parish pump politics that they do not give adequate attention to issues of provincial or national concern?

Although local issues are considered important, average turnouts for municipal elections of around 25 per cent are cited by some as evidence of the sad state of local politics. Turnouts at local elections contrast unfavourably with votes of 60 to 80 per cent, or more, recorded at provincial and national elections.

This is not, however, a fair comparison. Local elections are seldom fought on party lines. Elections are expensive. Money for recruiting workers to canvass and to bring out the vote on election day is not readily available. Without political parties the issues are reduced to a choice based almost exclusively on personal factors. Voters, moreover, find it difficult to distinguish between the various levels of government and their responsibilities. Quite often a provincial or federal election is fought predominantly on local issues. And, on occasion, provincial and national issues become focal points of a municipal election.

Local government is deeply imbedded in our political culture.

### **Local Government: a Definition**

Local government is the set of territorially limited institutions that make binding decisions on the allocation of public resources to meet expressed community needs.

Three essential elements are contained in this definition. One, local government consists of a number of political institutions. Two, these political institutions are decision-making bodies. Three, they are concerned with the provision of services to meet needs at the community level.

This definition sees the relationship between the political institutions and the social and economic institutions as a need/service relationship. Libraries, water supplies, schools, roads, parks, police and fire protection, electricity, sewage systems and all the other essential local services are provided for by political institutions in response to community needs.

### **Some Current Difficulties**

Because of the excessive number and limited size of municipal governments in Ontario, many needs are not being adequately met.

Some local municipalities have adopted a policy of non-response. They have maintained traditional services and have left the field open to other authorities to provide newer services required in a changing, urban-industrial-oriented society.

In a predominantly rural setting this strategy is feasible. But municipalities situated on the fringe of growing urban centres or in prime tourist and recreational areas have found the non-response policy less acceptable. Urban pressures in most of southern Ontario and parts of the north make it virtually impossible for municipalities to isolate themselves from change. All municipalities, to a greater or lesser degree, are faced with the need to adjust.

Their slowness to respond to changing needs has led to the intrusion of senior governments into community affairs. Agencies of the provincial government, particularly in the education, health and welfare fields, have become increasingly involved in provision of services to people. And too often there is no consistency in the administrative boundaries used from department to department. Thus a municipality may be included in one region for one purpose and another region for another purpose.

Another problem is the completely inadequate financial base of the municipal system. Restricted to the property tax as the major source

of revenue, the municipalities have become increasingly dependent on “outside help”.

Municipalities recognize their plight. They realize their ability to borrow money in the capital market on their own assets and expectations is jeopardized. A note of desperation colours the pleas of municipal political leaders for increased provincial assistance.

The province has recognized the financial difficulties faced by the municipalities. It has introduced a broad range of assistance programs. But, operating on a limited tax base itself, and with growing demands for provincial services, it is caught in the same sort of squeeze.

Any objective review of the financial position of local and provincial governments leads to the inescapable conclusion that total reform of taxation in Canada is needed and needed now. Serious inequities in our taxation system result from the inappropriate distribution of tax resources among the three levels of government in our federal system.

Tax reform is not just a matter of producing more revenue for the federal government. The essential job is to re-allocate the tax base so that each level of government has access to tax resources commensurate with its assigned responsibilities.

To achieve this objective we must first determine what responsibilities should be assigned to what level of government.

## **CHAPTER II**

### **THE REGIONAL COMMUNITY**

Support for local government comes from both the right and the left of the political spectrum. To the conservative, local government is essential because it tends to balance political power. To the radical, stressing community confrontation and power, local government can be used to transfer power from the hands of an entrenched economic and social elite to “the people”.

Both the radical and the conservative see the essential problem as finding new ways to maintain and strengthen individual freedom in a technocratic society. They agree on a fundamental objective — revitalization of a sense of community and integration of the community into the political process.

#### **Local Government and the Community**

Community has a variety of meanings.

As used here it is “a territorially bounded social system, or set of interlocking or integrated functional subsystems (economic, political, religious, ethical, educational, legal, socializing, reproductive, etc.) serving a resident population, plus the material culture or physical plant through which the subsystems operate”.

An awkward definition, but it provides an insight into the essential nature of the community.

The community is more than a neighbourhood. It contains all the elements of a functioning society. It is composed of social, economic and political institutions sufficient to service the needs of its population.

Within the community, people work, live and find cultural and recreational satisfaction. The community is the nation or the province in microcosm.

Local political institutions, therefore, must be related to the needs of the community and to the functioning of institutions in that community.

The community does not deny the existence or the importance of provincial and national political institutions. It does, however, emphasize the need for a local government system related to community goals.

### **Neighbourhood: an Aspect of the Community**

Townships and villages in Ontario once served as the basis for functioning communities. The small municipality, however, can no longer provide many services adequately. Though an emotional attachment to the locality remains, the basis of community life has broadened far beyond the neighbourhood.

In rural Ontario, for example, the motor vehicle has transformed the pattern of life of farmers and village residents. Many settlements once flourished as service centres for the farms in the vicinity. If located on railway lines, they acted as the link between the country and the physically remote larger urban centre — the county town or the city. The coming of the motor vehicle changed all this. Villages off the main highways stagnated as services tended to be concentrated in large municipalities on the main highways. The sense of physical separation between rural and urban residents declined. And the process was accelerated by the impact of the press, radio and television.

The city is capable of serving functioning economic and social systems. In this sense, the city is a community. But the city is also composed of neighbourhoods. These neighbourhoods take form within institutions such as home and school groups, church parishes, rate-payers' associations. Such institutions provide the links between the individual and the broader community.

In rural settings, the local community has many of the attributes of the neighbourhood. But the political system, devised to meet the needs of a horse and buggy transportation system, has little relevance to a transportation system dominated by the automobile and truck. Many services — medical, educational, retail, communications — are now provided on a regional basis. The emerging regional community is a

reality to much of rural southern Ontario. And by restructuring the political system to accommodate these broader regional communities, neighbourhoods need not be destroyed but can be integrated into a larger community.

Regional government is, therefore, a method of creating a political unit that is in keeping with the reality of most rural and urban life today. If we have developed regional communities in which each locality forms but a part — a neighbourhood in urban terms — of the larger community, then it follows that these regional communities should be organized politically.

Consolidation of existing municipal governments and regionalization are not steps designed to subvert the attachment people have for their neighbourhoods. They are simply steps essential to the rationalization of the political system and the establishment of new regional communities.

### **Drawing Boundaries**

Community also suggests a new approach to the vexing problem of drawing meaningful subprovincial territorial boundaries.

It points out the obvious weakness of any proliferation of political boundaries based on economic, administrative or other like criteria.

Fundamental to the health of any system is the “fit” between essential needs and the functioning of the institutions which serve those needs.

We can identify the essential needs for a community. But there is little possibility of matching needs and services under existing institutional arrangements. Institutional and community boundaries frequently have little or nothing in common and provincial administrative boundaries too often ignore both. Municipal institutions use still another set of boundaries.

Lack of identity in boundaries fragments the sense of the community. A first step, therefore, would appear to be to create common boundaries for the operation of all political institutions. And the delineation of these boundaries should be based on careful social and economic analysis aimed at identifying viable communities.

## **The Community as Region**

Political institutions form the central subsystem of communities. Political boundaries, therefore, define the community as a geographic entity.

This crucial fact has too often been overlooked. Geographical units have been created for a multitude of purposes using demographic, economic or topographical criteria. In so doing we have multiplied sets of boundaries and distorted the political process.

Economists, sociologists and planners express amazement that political units, having little or no rationale, exhibit one common characteristic: they work. No matter how illogical, how outdated, political units manage somehow or other to function. What the experts fail to see is that the political boundaries are not artificial. They establish units of political action in which binding decisions can be made and enforced.

The conscious decision to create a political unit establishes the fundamental underpinning for the development of the community.

Once one accepts the idea that the political boundary is the key ingredient the problem of delineating the community becomes manageable. Political units organized on a limited geographic basis cannot adequately service economic and social needs. Matching social and economic needs with a political system operating solely through a multitude of local and limited government bodies is difficult if not completely impracticable.

The possibility of a reasonable fit between needs and the services provided by the political system can be achieved best within a regional context. Yet within a regional government structure there is ample room for the preservation of municipal units designed to meet the limited and specific needs.

The political system of the regional community includes all of the agencies of government that make decisions on the allocation of public resources to meet needs in that community. This includes education, health, welfare, roads, utilities, cultural and recreational facilities. The regional government is responsible for all the services provided by all local government agencies within the region, however organized.

To carry out this responsibility the regional government must have the appropriate legal mandate and access either to an adequate tax base or to substantial revenue transfers from senior levels of government.

## **The Role of Local Government**

By approaching the question of government reform from the bottom up issues are clarified. At this level community needs can be assessed and priorities established for essential expenditures.

To ensure that the institutions of local government respond to community demands they must form a comprehensive operating mechanism; they must have an adequate financial base; and the necessary intrusions of senior levels of government must be integrated with local government services.

The present fragmentation of the institutions of local government inhibits rational integration of policy and programs to meet community needs.

Regional governments, based on the regional communities of the province, offer one possibility of meeting this problem. By assigning prime responsibility to the regional government to provide all essential public services for the region the integration of public policy and programs at the local level can be achieved. In addition, because the province would deal with a limited number of regional governments, the problems associated with provincial-municipal relations would be greatly simplified.

Present policy, tying regional government to the cities and adjacent rural area on an ad hoc basis, is too limited in concept. More attention should be paid to the very real differences that exist between rural and urban people. The suggestion of Whitby Mayor D. G. Newman to divide Ontario into urbanizing zones, rural zones, and northern zones has considerable merit.

What is required is a new "political map" of the province. A map outlining, at least in tentative terms, the regional communities of the province that will become regional governments. Such a map would give the people of Ontario a framework for the consideration of the appropriate types of regional government that will evolve over time.

Regional government, as conceived here, would act as the central government for each region with ultimate responsibility for all regional and local services. The essential job is to restructure the existing welter of municipalities, special purpose authorities and other agencies into an integrated governmental mechanism. Provision would be made, however, for the maintenance of a bottom tier of government, under the region, if this is deemed advisable.

The major point, however, is not how each region should be organized, but that the regional government is given adequate responsibility and revenues to do the job and to implement regional policies to meet regional needs.

Regional governments should be directly elected and be ultimately responsible for the raising and expenditure of public funds on services with the region. Special authority bodies (including boards of education) would naturally become regional operating agencies or an arm of a much expanded regional government as in the United Kingdom.

Functions that can best be operated on a local basis should be decentralized within the region. Nevertheless regional government would be the basic unit of municipal government. Variations within the region would depend on historical, economic, social and other factors which may dictate adjustments on a common pattern.

## **CHAPTER III**

### **PROVINCIAL-MUNICIPAL RELATIONS: A NEW FOUNDATION**

The regional government system advocated in this report envisages a change in the legislative base of municipalities. Regional communities would be given areas of power — legislative and financial — to respond creatively to diverse needs.

Today provinces occupy coordinate status with the national government. They share ultimate authority to act in prescribed areas. In this sense they are full partners with the national government.

Partnership does not apply, however, to the relationship between the municipality and the province. That relationship is subordinate-superior. And the subordinate legal position of the municipality tends to colour every action.

Our constitutional system vests power in the Crown. Under the Crown jurisdiction is divided between the federal and the provincial governments. All other institutions — municipalities, special purpose authorities, crown corporations — are agencies of the two senior levels of government.

#### **A Provincial Constitution**

In the Ontario Economic Council's previous report "The Reform of Government in Ontario", it was suggested that responsibilities could be divided between the province and the regional governments through a provincial "constitution".

Constitutional reform in Canada is now underway. Consideration should be given to the relationship between provinces and municipalities.

Support for a political system depends today primarily on the responsiveness of that system to public demands. Though we still need symbols of authority and legitimacy, they are meaningless unless a

common basis of shared goals and aspirations provides the firm foundation for a system built on the principles of tolerance, compromise and a sense of fair play.

Whether the source of power and legitimacy stems from the Crown or from the people is secondary to the division of power within the system. In our system ultimate political authority is shared by federal and provincial governments: the municipality has none.

Regional communities can only have coordinate status when the province delegates power to regional governments. But the division of power between the province and regional governments within a provincial constitution is not an end in itself. It is a means to an end. That end is the creation of self-sufficient regional governments capable of responding to the needs of regional communities.

### **Constitutional Flexibility**

Patterns of economic development, diversity of resources, and variations in population density raise the question as to how the province can be parcelled into an internally consistent system of regional communities.

Mayor Newman's concept of the three zones of regional organization provides one answer. In the southern urbanizing zone, metropolitan-centered regional governments can be given extensive powers to deal with almost all community needs. In the rural zone, characterized by smaller cities and an extensive rural population, some community services might be provided by the provincial government. In northern areas, the provincial presence is essential. Scattered population limits the total application of the concept of regional government.

These three readily discernable zones of social and economic development can be taken into account within the constitutional framework. This is not a new approach. We already recognize the limitations of types of municipal governments in our statutes. Essential differences exist in the various parts of the province and they can be recognized in a flexible constitution.

### **Dividing Responsibilities**

For simplicity it is assumed that a single form of regional government is applicable to all Ontario. This theoretical situation can give

us an indication of the range of services than can be provided within a fully developed regional government.

The basic question to ask is whether a direct service is involved. The next is whether the administration of that service can best be handled on a regional basis. When each program has been carefully scrutinized, one is able to assign responsibilities to the proper level of government.

Regional government should be assigned responsibility both for services now provided by municipalities and special purpose authorities and certain programs now operated by the province.

Regional government, for example, would be the prime source of essential physical services — roads, sewage and water systems, electrical distribution, etc. — and a major supplier of social services — health, education and welfare.

Highways, electrical power generation, water pipelines and other major utilities would continue to be the province's responsibility. In addition the province would ensure the appropriate link-up of regional services on an inter-regional basis.

Another, and important, provincial responsibility would be economic planning. The province should establish firm planning guidelines for economic development. Control over planning is necessary because the province would continue to invest heavily in the provincial service infrastructure.

### **Provincial Responsibilities**

This brief review of the logical division of powers indicates the currently changing nature of the provincial government's role.

Fundamentally the transfer of power envisaged here is in terms of the administration of services. The province would remain as the central legislative body. Implementation of the legislation would, however, rest primarily with the regional government. Regional government would provide services in response to regional needs. The province would provide provincial services and integrate the total governmental sector through overall planning.

Planning would, indeed, become the major expression of the provincial role in the total government system.

The current argument over the division of responsibilities in terms of the raising and spending of tax dollars ignores the growing importance of planning. In the future the major question to ask when searching for the source of political power in a society could well be not who taxes, but who plans.

Today we tend to plan largely outside the political system. At neither municipal or provincial levels have adequate political mechanisms been developed to control the planning process.

Planning should be a legislative rather than an administrative device. Official plans of municipalities are now couched in a legislative format. Yet provincial economic and regional development plans are now formulated and executed outside a legislative format.

This should be changed. Elected representatives should have direct input into the formulation and implementation of plans at both the regional and provincial levels.

Transfer of responsibility for the provision of services from the province to the region does not mean the withdrawal of the provincial input into regional affairs. As has already been noted, the province would continue to legislate and administer programs in provincial fields. It would be folly to conceive of legislation covering incorporation of companies, labour relations, human rights, and other like matters being enacted regionally. The province must retain sufficient authority to create the legal framework for our provincial society.

It follows that basic legislative power dealing with the legal framework must remain with the province. It is not essential, however, that the province administer all programs. The federal government enacts criminal laws enforced by police forces and courts in other jurisdictions.

In the same fashion provincial law regulating human, civil and property rights establishes the fundamental legal framework. Regional governments would service community needs within this framework.

A provincial constitution would establish the range of services each type of regional government performs and the minimum standards. To ensure that the constitution is more than just another statute, it would be necessary to provide for an adequate check on the power of the

government of the day to alter the constitution. This might best be achieved by requiring that some fixed percentage of members of the provincial legislature vote in favour of any proposed amendment.

### **The Need for Structural Change**

Basic changes would be involved in the provincial administrative structure.

If responsibility for the operation of services was given to regional governments, existing provincial administration would be changed. For example, when the county boards of education were established, the inspection function was transferred to the new boards. The provincial school inspectors no longer had a job. Some were hired by the boards. Others were retained by the province but were assigned to other functions.

Similarly, the Minister of Municipal Affairs has indicated that control of land use planning will be vested in regional governments.

Permissive legislation now gives the municipality power to legislate in prescribed areas. Mandatory legislation, except for statutes dealing with the organization of councils, financial controls, etc., has not been used extensively. On the whole, municipalities have not been ordered to provide services.

Objections to the proposals in this report can be raised on the ground that experience with permissive legislation has not been good. Municipalities often have not provided essential services or the services provided have not been comparable across the province.

This point of view is valid only if it is assumed that the province has access to knowledge denied the municipality. Given current financial imbalances, many municipalities may be fully aware of the need to provide a service but lack financial resources to do the job. As long as somebody else is able and willing, there is no real incentive to act yourself.

To date Ontario has had only very limited experience with regional governments having adequate financial resources and qualified professional staff. There is every reason to believe, however, that regional governments can and will be responsive to legitimate community needs.

It is not, moreover, essential to maintain absolute equality of service across the province as long as designated minima are realized. Such minimum standards of regional services can be written into the provincial constitution. Variations from the minimum could occur in response to community demands.

Many will protest the idea that standards of health, education and welfare may vary from region to region. As long as a common minimum standard is maintained, why condemn such a situation? Flexibility of approach would ensure that special needs, often not handled in a universalistic approach, could be serviced.

## CHAPTER IV

### PROVINCIAL-MUNICIPAL FINANCIAL RELATIONS

This report argues that there must be fundamental changes in the present financial basis of municipal government in Ontario.

Two of the key recommendations of the Council's previous report on governmental reform were:

“Every effort should be made to ensure that regional governments have a sufficient tax base to provide a minimum level of services without undue reliance on conditional or unconditional grants. The province must, however, maintain sufficient tax revenues to provide for its own operations and for the provision of equalization grants to the regional governments;”

and,

“In the determination of the transfer of functions and revenues to regional government from either the existing municipalities or the provincial government, the operating principle should be that, in so far as possible, the elector is able to assign responsibility for the provision of services to a specific level of government and that he is capable of understanding the real cost of each service as well as the direct and indirect benefits received. Such a pricing of public services is a prerequisite to the assignment of priorities for public expenditure.”

These recommendations reflect the Council's concern with the lack of understanding of the relationship between the demand for services and the cost of providing them. In that report it was suggested that shared-cost programs, conditional and unconditional grants and other forms of inter-governmental transfers, only tend to confuse the elector.

Ideally the assignment of responsibility for both provision of services and raising of revenues should be clear cut. This ideal situation may never be fully achieved but it should be the objective.

A basic change in the allocation of the provincial tax base in Ontario is necessary. There are real limitations imposed by the existing constitutional arrangements governing taxation in Canada and one can sympathize with the province's position.

The ultimate objective of reform, however, should be to establish self-contained regional governments occupying a coordinate status with the provincial government and to divide the tax base of the province between the two levels of government.

**Revenues and Expenditures**

In 1968-69, the total revenue raised in Ontario by the province and municipalities amounted to slightly more than \$4.1 billion. The major sources of taxation were:

|                                                   | (\$ Million) |
|---------------------------------------------------|--------------|
| Personal Income Tax                               | 620          |
| Commodity Taxes                                   | 763          |
| Corporation Taxes                                 | 354          |
| Local Property Tax                                | 1,169        |
| Gasoline and other motor vehicle taxes and levies | 496          |
| Other                                             | 744          |
| Total                                             | 4,146        |

Expenditures of the two levels of government, for the same period, including transfers from the federal government, were:

|                                             | (\$ Million) |
|---------------------------------------------|--------------|
| Education                                   | 1,909        |
| Health                                      | 1,131        |
| Social Security and Welfare                 | 307          |
| Transportation and other local public works | 673          |
| Protection                                  | 291          |
| Other                                       | 880          |
| Total                                       | 5,191        |

The revenue short-fall of approximately \$1 billion was accounted for by the transfer of \$647 million from the federal treasury and a deficit of \$398 million.

Ignoring inter-governmental transfers and looking only at revenues raised from the existing provincial tax base, the province's revenues (\$2,862 million) exceeded direct expenditure (\$2,423 million). At the local level, revenues amounted to \$1,284 million and direct expenditure stood at \$2,768 million. Even with the infusion of some \$1,227 million in financial transfers, local government in Ontario went into debt by \$257 million in 1968-69. That is a sum equal to 20 per cent of the total revenue raised from all local sources.

Given this situation no substantial shift of provincial responsibilities to the regional level is possible. Local governments lack the financial resources to meet present obligations let alone assume any additional functions.

Two solutions have been suggested. The first is the transfer of responsibility from municipalities to the province.

In support of this suggestion, municipal spokesmen and others have argued that local government services should be limited to services to property. This view is unfortunately short-sighted. Local government operating on a regional basis should be the primary source of services for people.

The second solution proposed would provide larger financial transfers to municipalities and special purpose authorities. The Smith Committee, for example, stressed the use of unconditional grants.

The New Democratic Party has suggested a "Municipal Foundation Plan" as a means of achieving balance between revenues and expenditures. The provincial government has increased its aid to education and has given special unconditional grants to regional governments.

Any measure to improve the financial plight of the municipalities would be welcomed. But continued experimentation with transfers will not get at the root of the problem.

The basic imbalance between revenues and responsibilities can only be corrected by assigning to local government a sufficient revenue base so that it can provide a satisfactory level of services.

### **Property Taxes: One Source of the Problem**

When the ownership of property represented the major form of wealth, the taxation of real property for revenue purposes made good

sense. Today wealth is held in many forms: bank deposits, mortgages, debentures, stocks, personal property of all forms, as well as land and buildings. Property taxation today is, therefore, inherently inequitable because it is imposed on only one form of wealth.

Federal and provincial governments have developed a formidable arsenal of taxes. They have taxed the transfer of money in the income or expenditure stream. In the main municipalities have been kept out of this lucrative tax field.

As a result municipalities are left with only one string in their tax bow — the property tax. In 1968-69 property tax in Ontario accounted for over 90 per cent of the total revenues of local governments. And this despite the criticism of property taxes as regressive, discriminatory and difficult to administer equitably.

Why?

If, by some accident of history, we had never used the property tax, would we invent it today? The answer is “probably yes”. Real property is one form of wealth that is visible, stationary, and therefore ideally suited for assessment and taxation.

As long as the ownership of property remains a significant status symbol in our society, it will be taxed.

The Smith Committee spent considerable time documenting various problems associated with the property tax. There is no need to go over this ground again. The province’s program of reassessment at current market value amply demonstrates the inequities built into the assessment base over the years.

Two areas in the property tax field should, however, be looked at very carefully. The first is the idea that assessment measures the ability of a municipality to pay for services.

As long as property tax remains the major source of municipal revenues, then assessment, equalized across the province, can be assumed to measure imbalance in the finances of municipalities.

But this is not a realistic measure of financial imbalance.

First of all, this whole argument stands on questionable grounds. Is one single measure of wealth an indication of the residents’ (or property owners’) ability to pay? Can we say that the value of land and buildings is, in every instance, a finite determinant?

Secondly, even if we assume a relationship between assessment and ability to pay, how can we translate this into a workable need formula? The only way is to ensure that municipalities perform a given range of services at a specific standard.

But who is to decide what these services shall be? What standard should be established? The standard applicable to a growing city with a favourable assessment base, or a township with a very limited assessment base? Or do you select a mythical average standard of service?

These questions point out difficulties inherent in the creation and implementation of a province-wide need formula based solely on equalized assessment. Inevitably the level and type of service provided becomes the reflection of provincial policy. This is seen most clearly in the welfare field where regulations established at Queen's Park for the operation of municipal welfare agencies are standardized to meet needs in metropolitan areas and may not necessarily apply equally to conditions in rural areas.

Thirdly, conditional grants in their application do not always reflect need. Many grants, for example, are simply cost-sharing. The municipality gets a grant at a fixed percentage of total cost. This favours rich municipalities and penalizes the poor, distorts spending priorities, and tends to weaken the municipality's capacity to meet community needs in a realistic fashion. The conditional grant also tends to bias priorities towards services for which provincial money is available. But, unless a need factor is included, the poorer municipality cannot afford to provide the service even if it is required while wealthier municipalities may not even need the grant to provide the service.

Too often money is allocated to particular projects, not because the community wants them, but because the money is available. And, again too often, grants are used by the province as deliberate devices to shape the programs of local government. The same holds true for federal-provincial relations.

As long as the property tax remains the major source of municipal revenue, municipalities will not be able to provide significant services without provincial financial aid.

## **Distortions in Priorities**

Another drawback of reliance on the property tax is the distortion of decisions made at the municipal level by the dictates of assessment.

Whenever any new program is considered by any level of government, the first question asked is “can we afford it?” At the municipal level, this question takes on a quite distinct form. Even if the program is justified in terms of increased incomes, or other human betterment, if it has no positive impact on assessment its cost may well represent a net loss to the municipality.

Municipalities are, of course, caught in a vicious circle. Because the expansion of services depends on increased assessment, the municipality makes increased assessment the chief objective. Though not necessarily an improper objective to pursue, the danger is that it becomes the only objective.

In pursuit of higher assessment, for example, local municipalities introduces negative weapons such as zoning and building by-laws specifically drafted to ensure that residential developments produce the highest possible assessment. New housing, particularly in the suburban areas around large cities, is usually expensive housing. By thus ensuring low density in expensive housing, the municipality generates the maximum assessment from residential development and reduces servicing costs to a minimum.

## **Enlarging the Municipal Tax Base**

The arguments advanced to support provincial control over tax resources are based on three assumptions:

- 1) that the province is constitutionally responsible for the provision of essential public services, even those delegated to the municipalities and, therefore, must have the financial resources to ensure that these services are provided (the constitutional argument);
- 2) that the nature of the tax base is such that administration and collection procedures must be centralized at the provincial level (the administrative argument); and
- 3) that differential rates in income, sales and other taxes would create serious economic dislocations within the province and,

further, centralization of collection is necessary to ensure regional financial balance (the economic argument).

### **Constitutional Arguments**

Municipalities are legally the creatures of the province. The province, therefore, it is argued, should control provincial tax revenues. Taken to its logical conclusion, municipalities would have no tax revenues except possibly fees for services.

That municipalities have access to property tax and other limited local revenues weakens the constitutional argument. The province has never insisted on full control of the whole provincial tax base but has allowed municipalities limited freedom of action.

This report has argued that municipal government should be given a constitutional base. Regional governments should be given revenue sources commensurate with their assigned responsibilities.

Under such an arrangement constitutional arguments supporting centralization of taxing power are no longer valid.

### **Administrative Arguments**

Granting the constitutional argument doesn't apply in the proposed basis for regional government, one can argue that administrative arguments for centralization are in no way weakened.

It is contended that existing municipalities are too small and too limited to operate a sophisticated tax collection system. Administrative costs are too high to warrant the decentralization of administration.

Given the establishment of regional governments, this argument does not hold. From an administrative point of view, no valid reason exists why the sales tax, now administered regionally, could not be collected by regional governments.

Nor is there any good reason why a portion of the individual income tax could not be assigned to regions. An Act to Reimburse Municipalities in Respect to Income Tax was passed in the Ontario Legislature in 1936. This followed the abolition of the ineffective municipal income taxes in the same year.

Similarly, profits from the sale of liquor could be assigned to regional governments. Licencing and operation of liquor outlets could also be given to regional governments, operating within general provincial policy guidelines.

The Smith Committee, dealing with the possibility of a municipal sales tax, dismissed the possibility of such an arrangement on the grounds that “the yield from the sales tax does not furnish a particularly suitable measure of local need”. Agreed, but does revenue from any particular tax furnish a measure of local need? Need can only be measured by weighing the cost of services against all the available tax resources.

If more provincial tax resources — income tax, sales tax, liquor profits, natural resource revenues — were allocated to regional governments, we would be in a better position to measure the imbalance between revenues and need. To determine need by assessment is inherently inequitable.

Fundamentally, administrative arguments have been given weight because they assume the continuance of a large number of municipalities, because of legal considerations, and because reviews of the problem were primarily concerned with provincial revenue.

A re-examination using the basic outline of reform advocated in this report might well yield substantially different conclusions.

### **Economic Arguments**

Proposed regional governments should not have freedom to set regional sales or income tax rates. Uniform levels of taxation or, alternatively, provincial reimbursements should be established through the provincial constitution.

Regional government would be assured of revenue, but have no power to alter rates of major taxes. On minor taxes, substantial variations from region to region could occur, reflecting priorities attached to these tax sources, region by region.

This reform package would not lock the province into specific administrative structures meeting the needs of neither Toronto or Smiths Falls. It would create flexible structures to meet the needs of all types of regional government.

If adopted, economic arguments supporting provincial control over taxation are met head on. Regional balance can be achieved through direct provincial action to provide basic services in regions which cannot provide such services. Provincial involvement is necessary and reasonable under these circumstances. Grants combined with some provincial services can be used to equalize standards in predominantly rural areas of southern Ontario. In the urbanizing regions, grants can be devised to ensure that standards of service are equalized.

This combination, ranging from direct service to grants, reflects the reality of Ontario. It achieves the flexibility of approach necessary to deal with problems found in Ontario.

## CHAPTER V

### REGIONAL GOVERNMENT TOMORROW

The many regions of Ontario cannot be organized politically within a single regional government format. The essential differences between urban and rural, and between north and south, should be taken into account.

In southern Ontario, strong urban-centered regional governments would appear to be not only possible but desirable. These could be given full responsibility for the provision of community services and an adequate tax base. Division of responsibilities, tax resources, tax rates and minimum service standards would be established through the constitution.

To ensure equality of service standards among urban-centred regional governments, a need factor would be developed and equalization grants paid by the province. Without a detailed study of the revenues from each tax source given to regions, it is, of course, impossible to determine either the tax base needed to provide sufficient revenues or the required equalization payments. While admittedly this would not be an easy task, it could be done.

In predominantly rural areas in southern Ontario one may find major differences in the economic and social structure, region by region. Regional governments would reflect these different stages of development. Some would encompass cities in the 30,000 population range. Others may have no large urban areas.

We are dealing with governments in a transitional stage. Over the next 30 years some will emerge as fully developed urban-centered regional governments.

Services provided by regional government would also vary from region to region. Each should accept as much responsibility as possible. The full regional tax base should be allocated even though the province may well act as an interim collector. Equalization grants would be essential to offset discrepancies in industrial base, population, and stage of urban development.

Northern areas of the province present a different challenge. Regional governments might carry out the regional planning function, but provision of services would have to be vested with the cities, other urban centres or the provincial administration. The provincial presence in large areas of the north would be essential to provide basic services.

Under these conditions, basic financial arrangements in the north would be unique. The urban centres could collect some taxes. The province would provide special northern development grants to underwrite the cost of community services provided in cities and scattered urban centres.

## CHAPTER VI

### WHY MUNICIPAL REFORM

The arguments presented in this report are based on the assumption that government at all levels is in danger of becoming a we/they proposition.

On the one side are the people with needs and aspirations. On the opposing side they see "government". And the bigger "government" grows, the more remote, more austere, and more lacking in understanding or compassion it appears.

One much publicized "solution" is involvement of people in the decision making process through what is often termed "confrontation". The rallying cry is people power, black power, red power, a whole spectrum of conflict.

But mass political action has never been compatible with democracy. In our system, democracy is a method of effecting compromise positions and conciliating both majority and minority.

Where demands are made, not as negotiable positions but as statements of inflexible rights, there can be no compromise. Frustration results and support for the democratic system is eroded.

There is another school of thought. Though not openly endorsed in the political arena, there is a growing number of "experts" who contend that government is primarily a management problem. These are the technocrats. Their answer is social engineering. Given the power to make decisions, they try to generate support for policies by using proven devices of mass communication.

This group occupies senior positions in all levels of government. Their common attitude of mind, their shared values and assumptions, tends to lead them in one direction — the shaping of the political process to achieve goals which they, themselves, hold to be for the common good.

\* \* \* \* \*

Inertia is a problem of all human institutions, including government. Mass political dissent occurs only when the normal institu-

tional channels for focussing and articulating demands in the system operate ineffectively. If we seek effective democracy the answer is not more confrontation, but rather the restructuring of governmental institutions.

Similarly, the answer to the emerging power of the technocrat is not to “throw the rascals out”. The answer, fundamentally, is to devise methods of ensuring the ultimate “political” control of the planner. The late James B. Milner posed the question best when he asked “who plans the planner?”

Determination of goals and setting of priorities is the politician’s job. The political process should be so organized that the electorate controls the formulation of goals and priorities. The expert’s role is to devise the best and most efficient method of achieving those goals.

Because most of the basic services provided by government relate to people in a regional community and because the individual is the most effective interpreter and most efficient manager of his personal resources, that community should be the basis of our political system.

Some public services must, of course, by their very nature be provided on a province-wide basis. Others must be provided on a national basis. But the bulk of public services to individuals and groups are best provided through the individual community.

Local government should be the focal point of political action — not an afterthought to be assigned a few local functions.

This view of the local government contradicts the belief that services to property are ideally the role of the municipality, while services to people should be vested with the senior levels of government. This is a specious argument. If there were no people, property would not require service.

Have we not learned that health, education and welfare expenditures are simply investments in human capital? The divorce between physical capital expenditures and human capital expenditures has only led to a serious misconception of the nature, purpose and role of local government. It is time we gave this idea a decent burial.

It is people and only people that count in our society. Government is simply the mechanism we use, collectively, to satisfy human needs. And local government is the agency through which the vast majority of our needs can best be identified and served.

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